



## THE CITY OF SAN DIEGO

DATE: May 11, 2009

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor Activity Report – March and April 2009**

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This report provides information on the activities and accomplishments of the Office of the City Auditor for the months of March and April 2009. It includes the audit reports issued and other accomplishments during this period, the status of current audit projects and activities, and a summary of planned audits that we have not yet started.

### **Audit Reports and Accomplishments:**

- March 9, 2009 – Presented an update on the CCDC performance audit and an update on Fraud Hotline activities to the Audit Committee.
- March 10, 2009 – Presented the Office of the City Auditor's activities to the San Diego Chapter of the Institute of Internal Auditors.
- April 1, 2009 – The Association of Local Government Auditors (ALGA) issued its 2009 Website Honorable Mention Award to the San Diego City Auditor's Office for the content of our website. The basis for the honorable mention included the Fraud Hotline information provided.
- April 7, 2009 – Issued a Hotline Report regarding our investigation of the Fourth District Senior Resource Center. We confirmed allegations that the non-profit organization failed to maintain adequate accounting records and financial reports, comingled grant funds, and made some personal use of funds. We recommended the Park and Recreation Department and the City Planning and Investments Department strengthen contract oversight to ensure City contactors are in compliance with contract provisions. Both Departments agreed to strengthen contract oversight procedures and to follow-up on compliance issues with this organization. The Hotline Report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/4thdistrict.pdf>

**Audit Reports and Accomplishments (Continued):**

- April 8, 2009 – Issued our agreed-upon procedures review report regarding the Water Department’s water allocation over-use penalty rate proposal for City customers. We found the Water Department’s methodology for assessment of penalties was consistent with those proposed by the water agencies, the penalty calculation was consistently applied to each customer class, and calculations were mathematically accurate. The report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/waterratereview.pdf>
- April 9, 2009 – Issued our close-out audit report for the former Comptroller, Gregory Levin. Close-out audits are required by City Charter, Article VII, Section 111 when a City Official leaves office. The primary audit objectives are to verify that there are no outstanding debts owed by the City Official to the City, and to ensure that access to critical information and processes has been revoked. We found that Mr. Levin had no outstanding debt to the City and no issues came to our attention requiring further review. The audit report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/comptrollercloseoutreport.pdf>
- April 17, 2009 – Issued our close-out audit report for the former City Attorney, Michael Aguirre. We found that Mr. Aguirre has no outstanding debt to the City. However, our audit found that the City Attorney is the only elected City official that receives Annual Leave benefits. Additionally, we found the process used to set the City Attorney’s salary is not fully in compliance with the City Charter Section and the Salary Ordinance. We recommended the IBA in consultation with the City Council research the appropriateness of having the City Attorney position in the executive group that allow for Annual Leave benefits, and to establish a process to approve the City Attorney’s salary in compliance with the City Charter and Salary Ordinance. The IBA agreed to implement these recommendations. The audit report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/cityattorneyclose-outaudit.pdf>
- April 29, 2009 – Issued our close-out audit report for the former City Councilmembers Scott Peters, Toni Atkins, Brian Maienschein, and James Madaffer. We found that the former Councilmembers had no outstanding debts to the City. However, we determined that controls and procedures over the Council Districts’ information technology equipment need to be improved. We recommended the Council District Administration establish written policies and procedures to annually reconcile the inventory report. The Council Administration indicated that a written policy has been established to institute the annual reconciliation to maintain an accurate accounting of inventory for all Council Districts. The audit report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/councilmemberscloseoutaudit.pdf>
- April 29, 2009 – Coordinated audio training for Comptroller’s staff on GASB 54.

**Current Audits and Activities:**

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>
<b>Real Estate Assets-Qualcomm Stadium Administration Audit</b>	The objective of this audit is to determine if the revenue generated by Qualcomm Stadium is being properly collected and accurately reported by the City. The report was issued on May 8, 2009. We have used approximately 755 audit hours.	May 8, 2009
<b>Park and Recreation - Recreation Facilities Operations Audit</b>	The objective of this audit is to determine if Park and Recreation's recreation facilities are properly collecting and accounting for pool fees. The report will be issued once management's response to the draft audit report is provided. We have used approximately 425 audit hours.	May 22, 2009
<b>Proposition 64 Funds Audit</b>	The objective of this requested audit is to determine if Proposition 64 funds are being properly budgeted and used solely for the enforcement of consumer protection laws. We have used approximately 542 audit hours, and the draft audit report is under review by Audit staff.	May 29, 2009
<b>San Diego Housing Commission Audit</b>	The objective of this audit is to determine if the San Diego Housing Commission has sound procurement and executive compensation practices. We will also review their development and asset management program. We have used approximately 1,331 audit hours, and the draft audit report is under review by Audit staff.	June 5, 2009

**Current Audits and Activities (Continued):**

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>
<b>Close-out Audits</b>	Close-out audits are required by City Charter, Article VII, Section 111 when a City Official leaves office. The primary audit objectives are to verify that there are no outstanding debts owed by the City Official to the City, and to ensure that access to critical information and processes has been revoked. We are conducting four close-out audits for City management officials. We have used approximately 123 audit hours, and we estimate an additional 48 hours will be needed.	June 5, 2009
<b>Water / Metropolitan Wastewater Department Contract Audit</b>	The objective of this audit is to determine if vendors are in compliance with contract terms. The audit fieldwork is nearly completed. We have used approximately 321 audit hours, and we estimate an additional 64 hours will be needed.	June 12, 2009
<b>Centre City Economic Development Corporation (CCDC) Audit</b>	Sjoberg Evashenk Consulting, Inc has been awarded the contract to conduct a performance audit of CCDC. Audit fieldwork is in progress.	June 15, 2009
<b>San Diego Convention Center Corporation (SDCCC) Audit</b>	Mayer Hoffman McCann P.C. has been awarded the contract to conduct a performance audit of SDCCC. Audit fieldwork is in progress.	August 15, 2009

**Current Audits and Activities (Continued):**

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>
<b>Purchasing and Contracting – Requisition, Purchase Order and Contract Management</b>	The objective of this audit is to determine if Purchasing and Contracting has sound procurement procedures in place and to evaluate the efficiency and effectiveness of the department’s procedures. We completed the audit of the contracts associated with the debris removal program to clear homes destroyed in the wildfires within the scope of this audit. We are now auditing the Citywide purchasing and contracting procedures. We have used approximately 1,626 audit hours to date and we estimate an additional 214 audit hours will be needed.	TBD
<b>Audit of Internal Control Remediations</b>	The objective of this audit is to test and verify management’s remediation efforts to correct weaknesses identified in the Kroll Report, external auditors’ reports and the Internal Auditor’s reports. We have used approximately 1,962 audit hours, and we estimate an additional 478 hours will be needed. We have tested 78% of the items reported remediated as of December 31, 2007.	TBD
<b>General Services - Streets Division Roadways Audit</b>	The objective of this audit is to determine if the City streets are being efficiently and effectively maintained by the City. Audit fieldwork is in progress. We have used approximately 171 audit hours to date and we estimate an additional 429 audit hours will be needed.	TBD

**Current Audits and Activities (Continued):**

Audit Activity	Status	Target Completion Date
<b>City Treasurer - Investment Activities Audit</b>	The objective of this audit is to determine if investments are being properly handled, accounted for and accurately reported in the City's financial statements. This audit is in the planning stage. We have used approximately 42 audit hours to date and we estimate an additional 558 audit hours will be needed.	TBD
<b>Enterprise Resource Planning (ERP) System Implementation Review</b>	The objectives of this audit are to: (a) determine if the City's key financial activities are being adequately reviewed and documented prior to the new system implementation to ensure key financial processes are properly addressed by the new system and (b) determine if the system was adequately tested prior to implementation. Approximately 1,255 audit hours have been used for this review, and we estimate an additional 675 hours will be needed.	TBD
<b>City Treasurer - Delinquent Account Collections Audit</b>	The objective of this audit is to determine if overdue accounts due to the City are being properly noticed, collected, accounted for, and accurately reported in the City's financial statements. This audit is in the planning stage. We have used approximately 17 audit hours to date and we estimate an additional 783 audit hours will be needed.	TBD

**Current Audits and Activities (Continued):**

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>
<b>Purchasing and Contracting - Equal Opportunity Contracting and Labor Compliance Audit</b>	The objective of this audit is to determine the efficiency and effectiveness of the City's equal opportunity contracting and labor compliance. This audit is in the planning stage. We have used approximately 15 audit hours to date and we estimate an additional 385 audit hours will be needed.	TBD
<b>Disclosure Practices Working Group (DPWG)</b>	City Auditor staff participates in DPWG meetings as an ex officio member. Approximately 47 hours were spent participating in various DPWG meetings during the months of March and April 2009.	On-going
<b>Fraud, Waste and Abuse Hotline</b>	We review and administer the City's Hotline calls that are received. We prepare reports for the calls that are personnel related and they are reviewed at biweekly hotline intake committee meetings by Labor Relations and the Personnel Department. Investigations are performed by the Office of the City Auditor for accusations of material fraud, waste or abuse, and we issue Hotline Reports on any allegations that are substantiated. During the months of March and April 2009, there were approximately eleven new hotline calls received. We have spent approximately 907 hours investigating calls this fiscal year.	On-going

**Current Audits and Activities (Continued):**

<b>Audit Activity</b>	<b>Status</b>	<b>Target Completion Date</b>
<p><b>Follow-up on Previously Issued Audit Reports – San Diego Data Processing Corporation (SDDPC)</b></p> <p><b>Follow-up on All Audit Reports Issued in FY08 Through the First Quarter of FY09</b></p>	<p>We are performing a follow-up audit on the recommendations made to SDDPC in an audit report issued in 2004, and we are reviewing compensation, budgeting and governance issues. We issued a report on SDDPC's compensation and budgeting practices on May 5, 2009, and the target date to issue the final report on our follow-up of prior recommendations and governance issues is June 30, 2009. We have used approximately 554 audit hours and we estimate an additional 160 audit hours will be needed.</p> <p>We have created a database to track all of our audit recommendations made since FY08. We will be sending memos to City Departments that were issued audit reports to determine their status of implementing the audit recommendations made.</p>	<p>On-going</p> <p>On-going</p>
<p><b>Selection Process to Hire an Outside Audit Firm to Conduct the City's Financial Statement Audits</b></p>	<p>We are working with the City's Audit Committee, IBA staff, and Purchasing and Contracting Department to hire an outside auditor to conduct the City's financial statement audits for FY2009 through FY2013.</p>	<p>On-going</p>



**Planned Audits Not Yet Started:**

<b>Planned Audit</b>	<b>Description</b>	<b>Estimated Audit Hours</b>
<b>Risk Management - Public Liability and Loss Recovery Audit</b>	The objective of this audit is to determine if public liability and loss recovery is being properly handled, accounted for and accurately reported in the City's financial statements.	800
<b>City Treasurer - Parking Meter Operations Audit</b>	The objective of this audit is to determine if the collections for parking meters is being properly accounted for and efficiently and effectively handled.	600
<b>Annual Central Stores Inventory Audit FY09</b>	The San Diego Municipal Code Section §22.0501 requires an annual audit of inventory in the City storerooms and warehouses. The objective of this audit is to confirm the valuation of Central Stores inventory and to evaluate the storerooms' internal controls to safeguard inventory.	80 (FY09) 160 (FY10)



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Eduardo Luna  
City Auditor

cc: Honorable Mayor Jerry Sanders  
Honorable City Council Members  
Jay M. Goldstone, Chief Operating Officer  
Mary Lewis, Chief Financial Officer  
Jan Goldsmith, City Attorney  
Andrea Tevlin, Independent Budget Analyst  
Stanley Keller, Independent Oversight Monitor